

ANN ARBOR LEARNING COMMUNITY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Ann Arbor Learning Community
Ann Arbor, Michigan

July 20, 2004

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community (the Academy), as of and for the year ended June 30, 2004, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ann Arbor Learning Community's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community as of June 30, 2004 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Academy has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2004, on our consideration of Ann Arbor Learning Community's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Education
Ann Arbor Learning Community

July 20, 2004

The management's discussion and analysis and budgetary comparison information on pages v through xii and 17, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ann Arbor Learning Community's basic financial statements. The additional information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costeisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Ann Arbor Learning Community's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

Financial Highlights

- The academy's financial status improved with an increase in net assets of \$62,637.
- Revenues increased by 8 percent while expenses increased by 3 percent. Blended enrollment used for state aid purposes was 113.44 in June 2004 compared to 104.40 in June 2003.
- The academy maintained its outstanding liabilities.
- There was little capital outlay this year. The academy's plans for a future site and increased student enrollment will increase capital outlay spending in the future.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Ann Arbor Learning Community Annual Financial Report

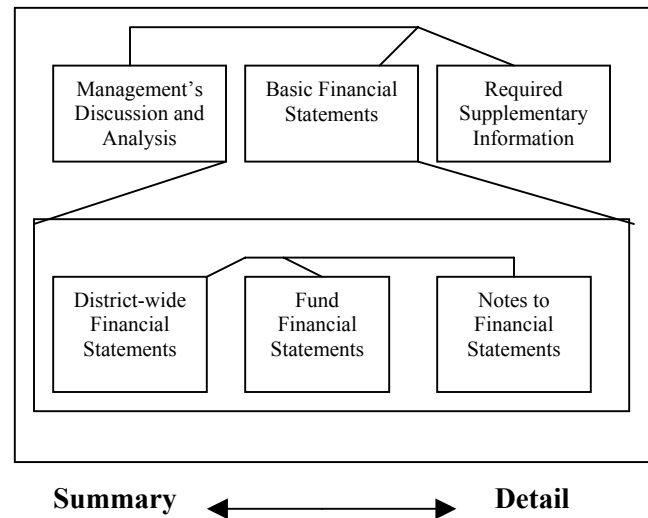


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds – The academy is the fiduciary for assets that belong to others, such as the student activities funds. The academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the academy cannot use these assets to finance its operations.

Financial analysis of the academy as a whole

Net assets - the academy's combined net assets were larger on June 30, 2004 than they were the year before, increasing by \$62,637 to \$300,545. See Figure A – 3.

The total revenues increased by 8 percent to \$855,108. State aid foundation allowance included in revenue from state sources accounts for most of the academy's revenue (92 percent).

The total cost of instruction increased by 5 percent to \$465,452. Total support service expenses decreased 1 percent to \$306,610.

The academy's stable financial position is the product of many factors. The primary reasons are an increase in students enrolled, the management of expenses to bring them into line with the academy's revenue, and a reduction in teacher salaries and retirement expenses.

Academy governmental activities

The stable health of the academy's finances results from a balance between a weaker economy resulting in less state and other revenue and offset by the management of expenses. The state reduced the foundation allowance by \$74 per pupil. The school board oversaw the academy's financial activities while the administration carefully managed expenses and reduced support service expenses.

Figure A-3	
Ann Arbor Learning Community	
	2004
Current assets	\$ 314,218
Capital assets	83,033
Total assets	397,251
Current liabilities	96,706
Net assets	
Invested in capital assets, net of related debt	58,086
Unrestricted	242,459
Total net assets	\$ 300,545

Figure A-4	
Changes in Ann Arbor Learning Community's Net Assets	
	2004
Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 34,255
General revenues:	
State aid - unrestricted	783,378
Investment	1,387
ISD	18,118
Other	17,970
Total revenues	855,108
Expenses:	
Instruction	465,452
Support services	306,610
Unallocated depreciation	20,409
Total expenses	792,471
Change in net assets	\$ 62,637

Financial analysis of the academy's funds

The stable financial performance of the academy as a whole is reflected in its governmental fund as well. As the academy completed the year, its governmental funds (general) reported a fund balance of \$242,459, an increase of \$80,922 over last year's ending fund balance of \$161,537.

General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget three times. These budget amendments fall into several categories:

Changes made in the second and third quarters to account for student enrollment counts, a prorated reduction in the state aid, and changes in assumptions (e.g. resignation of a teacher and utility costs) since the original budget was adopted.

While the academy's final budget for the general fund anticipated revenues would exceed expenditures by \$35,707, the actual results for the year showed revenues over expenditures of \$ 80,922.

Actual revenues were \$23,610 higher than budgeted, due to higher than estimated revenue from state sources.

The actual expenditures were \$21,605 under budget primarily due to lower added needs and school administration expenses.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2004, the academy had invested \$83,033 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. This amount represents a net increase of \$18,285 from the beginning of the year. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$20,409.

No significant assets were purchased during 2004. The academy's fiscal year 2005 initial budget anticipates spending \$0 for capital projects.

The Academy's capital assets are as follows:

Figure A-5 Ann Arbor Learning Community's Capital Assets			
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 95,389	\$ 37,660	\$ 57,729
Furniture and fixtures	28,036	2,732	25,304
Total	<u>\$ 123,425</u>	<u>\$ 40,392</u>	<u>\$ 83,033</u>

Facilities lease obligation

The academy is disputing the payment of the facilities lease obligations of \$24,947 incurred during a prior year related to the purchase of certain capital assets.

Factors bearing on the academy's future

At the time these financial statements were prepared and audited, the academy was aware of existing circumstances that could significantly affect its financial health in the future.

The 2004-2005 foundation allowance (state aid funding) from the State of Michigan has stabilized to \$7,000 per student. The foundation allowance was reduced in 2002-2003 and 2003-2004. The foundation allowance represents 92 percent of the total academy revenue. Due to the economic climate in the State of Michigan an increase in foundation allowance is not likely while a reduction in foundation allowance is possible.

The Michigan Public School Employees Retirement System contribution will increase to 14.87 percent as of October 1, 2004. This employer contribution increases from 12.99 percent in 2003-2004. The retirement expense combined with anticipated increases in employee benefits expenses and other expenses will prohibit salary increases for 2004-2005.

The academy cannot expand its student enrollment at its present site to increase revenue and offset an increase in the rental expense and other operating/building services or basic program expenses. The academy expects to move to a new site in 2005 that will allow for student enrollment growth and increased revenue from state aid. While the larger site and student body will increase basic program and operating/building services expenses, some expenses of the academy will remain the same thus making the academy and its operations at the future site more cost-effective.

Resolution of the facilities lease obligation discussed above may result in an actual liability which is significantly different than the amount recorded.

Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 2898 Packard in Ann Arbor Michigan 48108.

**ANN ARBOR LEARNING COMMUNITY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 164,821
Receivables:	
Other governmental units	146,461
Other	1,502
Prepaid expenditures	<u>1,434</u>
TOTAL CURRENT ASSETS	<u>314,218</u>
NONCURRENT ASSETS:	
Capital assets	<u>83,033</u>
TOTAL ASSETS	<u><u>\$ 397,251</u></u>
LIABILITIES AND FUND BALANCE	
CURRENT LIABILITIES:	
Accounts payable	\$ 4,900
Accrued salaries and related items	54,297
Deferred revenue	12,562
Facilities lease obligation	<u>24,947</u>
TOTAL CURRENT LIABILITIES	<u>96,706</u>
NET ASSETS:	
Invested in capital assets, net of related debt	58,086
Unrestricted	<u>242,459</u>
TOTAL NET ASSETS	<u>300,545</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 397,251</u></u>

**ANN ARBOR LEARNING COMMUNITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Functions/programs	Expenses	Program revenue		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 465,452	\$	\$ 25,040	\$ (440,412)
Support services	306,610		9,215	(297,395)
Unallocated depreciation	20,409			(20,409)
Total governmental activities	<u>\$ 792,471</u>	<u>\$</u>	<u>\$ 34,255</u>	<u>(758,216)</u>
General revenues:				
State of Michigan school aid unrestricted				783,378
Investment revenue				1,387
Washtenaw ISD special education allocation				18,118
Miscellaneous				17,970
Total general revenues				<u>820,853</u>
CHANGE IN NET ASSETS				62,637
NET ASSETS, beginning of year				<u>237,908</u>
NET ASSETS, end of year				<u>\$ 300,545</u>

**ANN ARBOR LEARNING COMMUNITY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2004**

	General fund
<hr/>	
ASSETS	
ASSETS:	
Cash	\$ 164,821
Receivables:	
Other governmental units	146,461
Other	1,502
Prepaid expenditures	1,434
	<hr/>
TOTAL ASSETS	\$ 314,218
	<hr/>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	\$ 4,415
Accrued salaries and related items	54,297
Deferred revenue	12,562
Due to fiduciary fund	485
	<hr/>
TOTAL LIABILITIES	71,759
	<hr/>
FUND BALANCE:	
Reserved for:	
Prepaid expenditures	1,434
Unreserved:	
Designated for budget stabilization	40,721
Undesignated	200,304
	<hr/>
TOTAL FUND BALANCE	242,459
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 314,218
	<hr/>
Total Governmental Fund Balance	\$ 242,459
 Amounts reported for governmental activities in the statement of net assets are different because:	
 Capital assets used in governmental activities are not financial resources and are not reported in the fund:	
The cost of the capital assets is	\$ 123,425
Accumulated depreciation is	(40,392)
	<hr/>
	83,033
 Long-term liability is not due and payable from current resources and is not reported in the fund:	
Facilities lease obligation	(24,947)
	<hr/>
Net assets of governmental activities	\$ 300,545
	<hr/>

ANN ARBOR LEARNING COMMUNITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2004

	General fund
REVENUES:	
Local sources	\$ 37,475
State sources	811,156
Federal sources	6,477
	<hr/>
Total revenues	855,108
	<hr/>
EXPENDITURES:	
Instruction:	
Basic instruction	418,478
Added needs	46,974
	<hr/>
Total instruction	465,452
	<hr/>
Support services:	
Pupil	6,431
General administration	35,227
School administration	133,839
Business	1,602
Operations and maintenance	131,635
	<hr/>
Total support services	308,734
	<hr/>
Total expenditures	774,186
	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	80,922
	<hr/>
FUND BALANCE:	
Beginning of year	161,537
	<hr/>
End of year	\$ 242,459
	<hr/> <hr/>

**ANN ARBOR LEARNING COMMUNITY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net change in fund balances total governmental fund	\$ 80,922
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund reports capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(20,409)
Capital outlay	<u>2,124</u>

Change in net assets of governmental activities	<u><u>\$ 62,637</u></u>
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**ANN ARBOR LEARNING COMMUNITY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>Agency Fund Student activities</u>
ASSETS	
Due from general fund	<u>\$ 485</u>
LIABILITIES	
Due to student groups	<u>\$ 485</u>

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ann Arbor Learning Community have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Adoption of New Accounting Standards

During the fiscal period 2004, the Academy adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the Academy to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make certain changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund balance at June 30, 2003 - governmental funds	\$ 161,537
Facilities lease obligation	(24,947)
Net capital assets (restated)	<u>101,318</u>
Restated net assets - July 1, 2003	<u><u>\$ 237,908</u></u>

B. Reporting Entity

Ann Arbor Learning Community (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Eastern Michigan University is the authorizing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt, restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (state revenue, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, intergovernmental revenue, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and fund financial statements (Concluded)

Governmental Funds – Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Fiduciary funds account for assets held by the Academy as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to claims and judgments, are recorded only when payment is due.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

E. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposit accounts.
2. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Concluded)

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, are shown net of an allowance for uncollectible amounts, if any.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Computer equipment	5 years
Furniture and fixtures	20 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

5. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

6. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Administrator submits to the Board of Education a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The School Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2004. The Academy does not consider these amendments to be significant.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

Cash is held in the name of the Academy in the general fund.

Deposits

At year-end, the carrying amount of the Academy's deposits was \$164,821. The bank balance of these deposits was \$168,493, of which \$100,000 was covered by federal depository insurance.

The Academy places its deposits with high quality financial institutions. Although such deposits may exceed federally insured limits during the year, they are, in the opinion of the Academy, subject to minimal risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance June 30, 2003	Additions	Reclassification/ deletions	Balance June 30, 2004
Capital assets, being depreciated:				
Computer equipment	\$ 93,265	\$ 2,124	\$	\$ 95,389
Furniture and fixtures	<u>28,036</u>			<u>28,036</u>
Total capital assets being depreciated	<u>121,301</u>	<u>2,124</u>		<u>123,425</u>
Accumulated depreciation:				
Computer equipment	18,653	19,007		37,660
Furniture and fixtures	<u>1,330</u>	<u>1,402</u>		<u>2,732</u>
Total accumulated depreciation	<u>19,983</u>	<u>20,409</u>		<u>40,392</u>
Net capital assets	<u><u>\$ 101,318</u></u>	<u><u>\$ (18,285)</u></u>	<u><u>\$</u></u>	<u><u>\$ 83,033</u></u>

Depreciation for the fiscal year ended June 30, 2004 amounted to \$20,409. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – FACILITIES LEASE OBLIGATION

The Academy is disputing the payment of the facility lease obligations of \$24,947 incurred during a prior year and did not make payment with available financial resources.

NOTE 6 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The Academy contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the MPERS board. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2004, was 12.99% of payroll through September 30, 2004. The contribution requirements of the plan members and the Academy are established and may be amended by the MPERS Board of Trustees. The Academy contributions to MPERS for the years ended June 30, 2004, 2003 and 2002, were approximately \$52,000, \$54,000 and \$44,000, respectively, equal to the required contribution for the year.

The Academy is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Under the MPERS' Act, all retirees have the option of continuing health, dental, and vision coverage.

**ANN ARBOR LEARNING COMMUNITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 8 – LEASE COMMITMENTS

The Academy has entered into a lease agreement effective July 1, 2000 for 5 years for the occupancy of educational and office space. Future years minimum rental commitments are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2005	\$ 94,200

Rent expense under this lease for the year ended June 30, 2004 was \$91,452.

NOTE 9 – COMMITMENTS

During 2004, the Academy entered into a contingent fee contract with a consultant for assistance in procuring a new site for the Academy. The amount payable under the contract is contingent upon various factors including the future rent amounts for the new facility. The maximum potential amount due under the contract is estimated by management to be approximately \$42,000. As of June 30, 2004 no outstanding liability exists related to this contract.

REQUIRED SUPPLEMENTARY INFORMATION

**ANN ARBOR LEARNING COMMUNITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with final budget Positive (Negative)
REVENUES:				
Local sources	\$ 24,804	\$ 37,411	\$ 37,475	\$ 64
State sources	761,873	781,105	811,156	30,051
Federal sources	8,353	12,982	6,477	(6,505)
Total revenues	795,030	831,498	855,108	23,610
EXPENDITURES:				
Instruction:				
Basic programs	416,366	418,920	418,478	442
Added needs	12,824	53,724	46,974	6,750
Total instruction	429,190	472,644	465,452	7,192
Support services:				
Pupil	38,497	9,758	6,431	3,327
General administration	31,403	33,083	35,227	(2,144)
School administration	135,112	143,605	133,839	9,766
Business	1,921	2,170	1,602	568
Operations and maintenance	138,434	134,531	131,635	2,896
Total support services	345,367	323,147	308,734	14,413
Total expenditures	774,557	795,791	774,186	21,605
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 20,473</u>	<u>\$ 35,707</u>	80,922	<u>\$ 45,215</u>
FUND BALANCE:				
Beginning of year			161,537	
End of year			<u>\$ 242,459</u>	

ANN ARBOR LEARNING COMMUNITY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY SCHOOL
AGENCY FUND - STUDENT ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>Balances beginning of year</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances end of year</u>
ASSETS				
Due from other funds	<u>\$</u>	<u>\$ 15,667</u>	<u>\$ 15,182</u>	<u>\$ 485</u>
LIABILITIES				
Due to student groups:				
Weaver	\$	\$ 577	\$ 577	\$
Buchanan		266	266	
Kreiner		268	268	
Bergin		546	536	10
Taylor		507	507	
Disbrow		520	520	
Middle school activities		3,413	2,986	427
Middle school trip		8,019	8,019	
Book fair		969	969	
Nagle		<u>582</u>	<u>534</u>	<u>48</u>
	<u>\$</u>	<u>\$ 15,667</u>	<u>\$ 15,182</u>	<u>\$ 485</u>



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Dennis D. Theis

Walter P. Maner, Jr.
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Ann Arbor Learning Community
Ann Arbor, Michigan

July 20, 2004

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community as of and for the year ended June 30, 2004, which collectively comprise the basic financial statements of the Academy and have issued our report thereon dated July 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ann Arbor Learning Community's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ann Arbor Learning Community's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Ann Arbor Learning Community in a separate letter dated July 20, 2004.

This report is intended for the information of the Board of Education management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.



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July 20, 2004

To the Board of Education
Ann Arbor Learning Community
Ann Arbor, Michigan

In planning and performing our audit of the financial statements of Ann Arbor Learning Community for the year ended June 30, 2004, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 20, 2004, on the financial statements of Ann Arbor Learning Community.

Payroll Registers

Payroll registers are not currently reviewed by anyone independent of the payroll preparation process. Consideration should be given to having the payroll registers reviewed by someone other than the person preparing the input documents. This could be done on an after the fact basis within a reasonable time frame of the payroll being processed.

Offsite Backup of Data

Electronic data is currently being backed up monthly at an offsite location. To reduce the risk of lost data the cost benefit of performing these back ups more frequently should be considered. Offsite back ups should be done at least weekly or more often if major data changes are made. In addition, periodically the offsite back ups should be tested to determine that the information is being backed up as intended.

Government Accounting Standards Board (GASB) Statement #40 “*Deposit and Investment Disclosures*”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and any equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk and foreign currency risk. If the entity adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The Academy’s current investment policy does not address custodial credit risk related to its cash funds deposited with financial institutions in excess of FDIC insured amounts. The policy should be revised to address this issue.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Ann Arbor Learning Community
Ann Arbor, Michigan

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July 20, 2004

This report is intended solely for the information and use of Ann Arbor Learning Community, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



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July 20, 2004

To the Board of Education
Ann Arbor Learning Community
Ann Arbor, Michigan

We have audited the financial statements of Ann Arbor Learning Community for the year ended June 30, 2004, and have issued our report thereon dated July 20, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 11, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Ann Arbor Learning Community. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ann Arbor Learning Community are described in Note 1 to the financial statements. During the year the Academy adopted the new governmental reporting model as required by Governmental Accounting Standards Board (GASB) Statement No. 34. We noted no transactions entered into by Ann Arbor Learning Community during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The facilities lease obligation of approximately \$25,000 has been calculated by management based on the original terms of the contract. The resolution of this issue may result in a liability of a different amount.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ann Arbor Learning Community's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Ann Arbor Learning Community, either individually or in the aggregate, indicate matters that could have a significant effect on Ann Arbor Learning Community's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Ann Arbor Learning Community's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Education and management of Ann Arbor Learning Community and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.